Gloves

Frontloaded Optimism

MARKET WEIGHT
(Maintained)

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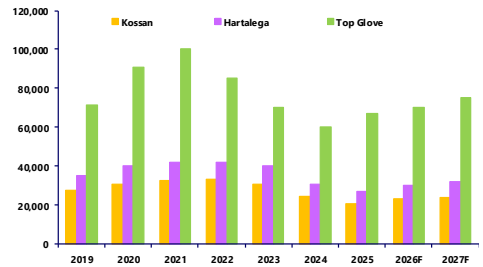
Highlights

- Revitalising sentiment for the sector following ASP hike due to the ongoing Iran war, Andes hantavirus outbreak and improving earnings outlook prompted us to upgrade our valuations peg from -0.5SD to mean.
- Nevertheless, top-line pressure from the weakening MYR/USD rate, potential ASP and margins normalisation when the Iran war de-escalates, and China's capacity influx remain as mid-long-term challenges.
- Sector's risk-reward pay-off appears neutral after the recent share price rally. Maintain MARKET WEIGHT. Top pick: Kossan.

Analysis

- **Recent hantavirus outbreak unlikely to evolve into COVID 2.0.** The recent Andes hantavirus infections on a cruise ship are casting concerns on another global-wide outbreak like COVID-19. This Andes hantavirus outbreak has caused three death tolls and eight confirmed cases thus far. Nevertheless, the World Health Organization says that the risk of a major outbreak from hantavirus is very low, with various pre-emptive efforts such as quarantine arrangements being carried out. As such, we do not foresee the glove industry benefitting meaningfully for now, unless the situation deteriorates.
- **Operational recovery underway, building up favourable trading momentum...** With the recent steep ASP hike to US$26-28/'000 gloves and an improving utilisation rate, trading sentiment on Malaysian glovemakers are building up. For 2026, we assess that the Malaysian glovemakers' volume sales may see a 10-15% yoy growth, lifted by a better restocking cycle from distributors and customers. Coupled with margin expansion from higher ASP and operational enhancement (from various automation and cost rationalisation efforts over the past two years), the sector is estimated to deliver a commendable 12-15% earnings growth in 2026-27.
- **…but restoration to pre-pandemic's earnings dynamic remains difficult.** Although the worst is over, we believe that Malaysian glove manufacturers are still facing an upward slope to restore their pre-pandemic profitability. Several structural changes such as the weakening MYR/USD rate and persistent competition from China peers are key resistances towards restoring pre COVID-19 earnings levels. Moreover, additional production capacity from China glovemakers only takes 12-18 months to build up currently, resulting in oversupply dynamics, a sub-optimal utilisation rate and shorter inventory cycles over mid-long-term horizons.
- **From valuations' perspective, near-term upside has been fairly priced in.** Domestic glovemakers share prices have surged 19-36% ytd following optimistic sentiment on the sector's improving narrative, Andes hantavirus newflow and potential tailwind from the ongoing Middle East tension. The sector is now trading close to +1SD above historical mean valuations on consensus' 2027 earnings forecasts, which are rich and possess unexciting risk-reward balance, in our view.

Malaysia Glovemakers' Effective Capacity



Source: Respective Companies, UOB Kay Hian

Sector Valuations (Pre-COVID-19)

Source: UOB Kay Hian

Peer Comparison

Company	Ticker	Rec	Share Price 11 May 26 (RM)	Target Price (RM)	Market Cap (US$m)	PE FY25 (x)	PE FY26F (x)	PE FY27F (x)	P/B FY25F (x)	P/B FY26F (x)	P/B FY27F (x)	2027F Div Yield (%)
Top Glove	TOPG MK	HOLD	0.855	0.75	1,747.0	42.0	25.8	24.4	1.4	1.4	1.4	2.0
Hartalega	HART MK	HOLD	1.33	1.23	1,154.9	62.5	30.6	29.5	1.0	1.0	1.0	1.9
Kossan Rubber	KRI MK	BUY	1.27	1.37	816.3	27.3	26.5	22.6	0.9	0.9	0.9	3.2

Sources: Bloomberg, UOB Kay Hian

- **Potential tailwinds from Iran war, but likely non-lasting.** To adequately offset accelerating input costs (raw material prices surging 15-20% averagely), Malaysian glovemakers raised ASP to US$26-28/'000 pcs for 2Q26 shipments. The higher ASP also priced in some buffer to further mitigate production cost fluctuations in the near term. Coupled with an estimated 10-15% yoy volume sales improvement, we anticipate EBITDA margin expansion of 1-2ppt in 2026. In short, we expect 2026 earnings to see a sequential improvement from this ASP hike and margin expansion cycle, but could normalise swiftly after given that the overall industry is still in oversupply state with ample of idled capacity.
- **ASP hike in the horizon but more of a cost-push mechanism.** Our channel checks indicate that regional glove producers in China and Thailand are setting the same tones and progressively raising ASPs. While the steadying ASP undoubtedly bodes well for local glove producers, we think that the recent rounds of minor ASP revision are mainly cost-push initiatives to pass through cost pressures that are exerting margins. We also remain cautious that the recent rounds of ASP revisions may reverse if the raw material prices or global crude oil prices normalise amid de-escalation of the Middle East conflict (as witnessed in the post-COVID-19 cycle).
- **Longer term, China's red ocean strategy and industry oversupply remain challenging.** Given the severity of current US tariffs, China glovemakers largely reduced their exposure to the US market and re-channelled their sales to regions like Europe and Asia with more competitive price cutting strategies. Furthermore, some China players are exploring capacity expansion in other ASEAN countries such as Indonesia, Vietnam and Thailand, deepening the overcapacity issues and weighing on Malaysian glovemakers' profitability over the longer term.
- **Improving sentiment catalysing sector's re-rating to mean levels.** With valuations recovery arising from a more optimistic sector outlook, domestic glovemakers are now trading above historical mean valuations on consensus 2027 earnings. We acknowledge that the worst may be over for the sector, as an imminent earnings recovery supports current valuation levels. The glove companies under our coverage possess limited capital upside opportunities based on our 2027 normalised earnings at mean valuations.

2027 Valuations And Implied Target Prices

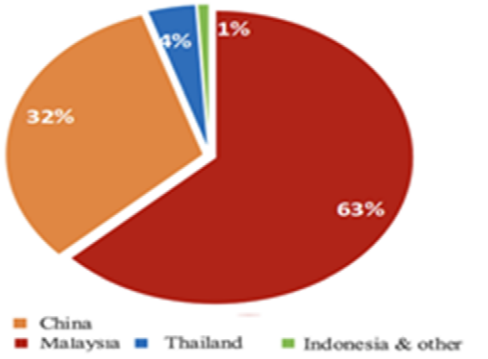
Companies	Valuations	2027F EPS forecasts (sen)	Implied TP (RM)	% Upside from current share price
Hartalega	28x PE (mean)	4.4	1.23	(7.5)
Top Glove	25x PE (mean)	3.0	0.75	(12.3)
Kossan	16x ex-cash PE (mean)	4.8	1.37	10.5

Source: UOB Kay Hian

Valuation/Recommendation

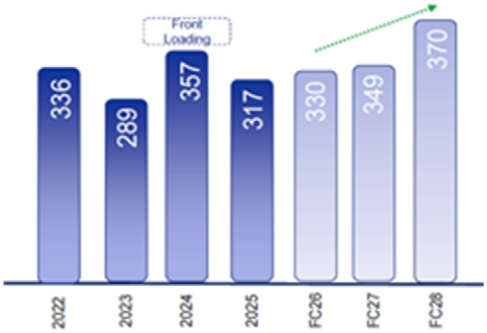
- **Maintain MARKET WEIGHT on the Malaysian glove sector.** Risk-reward payoff appears balanced as the recent share price rally has already priced in earnings recovery through 2027 (based on consensus forecast) at mean valuations.
- **We upgraded our valuation peg from -0.5SD below mean to mean,** reflecting improving sentiment on the sector following Andes hantavirus newflow and potential tailwind from the ongoing Middle East tension. **We also roll over our valuations to 2027.**
- **Maintain HOLD on Top Glove and Harta** with higher target prices of RM0.75 and RM1.23 respectively following valuations peg adjustments.
- **Our sector top pick is Kossan (BUY/Target:RM1.37)** which commands relatively discounted valuations and huge net cash position of RM1.56b (around 60 sen/share or 47% of its current market cap).

Global Nitrile And Latex Gloves Production Capacity



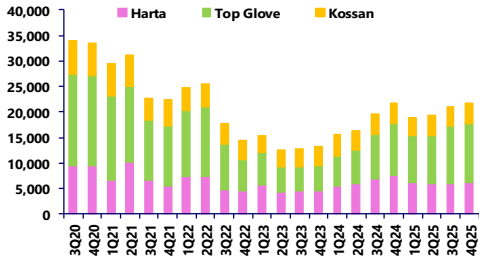
Source: OILCHEM

Global Gloves Demand (b' pieces)



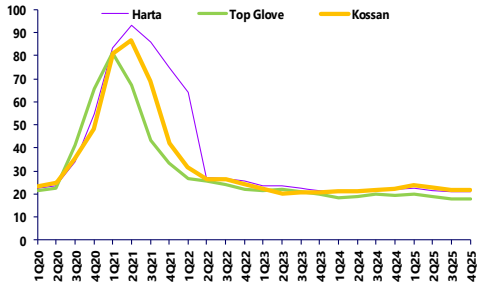
Source: Hartalega, International Trade Center (ITC)

Malaysia Glovemakers' Quarterly Sales Volume (m' pieces)



Source: Respective companies, UOB Kay Hian

Malaysia Glovemakers' Quarterly ASP (US$/'000 pieces)



Source: Respective companies, UOB Kay Hian

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